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Energy as a Weapon: Emerging Threats in Latin America and Sub-Saharan Africa

Mr. Chairman and Members of the Committee, it is an honor to speak with you today about the growing use of energy as a weapon by producing countries and the risk this poses to US national and economic security. I will review the nature of this threat, the policies of the major producing governments in Latin America and Africa and suggest some policy measures the United States can adopt to ameliorate these risks.

I. The Growing Use of Energy as a Weapon

The United States is more energy insecure today than it has been in nearly thirty years. We are insecure because the global oil market is more fragile, more competitive and more volatile than it has been in decades. Global demand for oil is strong, powered by global economic growth, especially in China and developing Asia. Global supply has been constrained, first by underinvestment by international oil companies, then by production restraints by OPEC following the crash of oil prices in 1998, and now due to restrictive economic frameworks in many producing nations and internal instability in others. The consequence of this market is that nominal oil prices are high, oil producers are earning enormous economic rents from these prices, spare capacity of oil is barely 2 million barrels per day (bbl/d) in an 85 million barrel per day market and every marginal producer of oil can command global headlines by threatening actions that can impact global oil prices. Oil remains a strategic commodity primarily for transportation and we have failed to develop substitutes we can shift to. The future looks grimmer than the past. Absent a major change in transportation technology or policy, global oil consumption will nearly double by 2030 and dependence on OPEC supply will grow. The outlook for prices is bullish: so far we are consuming oil faster than we are discovering new supplies.

As dire as these projections sound, this is not the worst news. The worst news is that the energy dependency of the US, our allies in Europe and developed Asia, and the growing dependence of rising powers such as China and India is rapidly eroding US global power and influence around the world. US power is challenged in five ways.

First, the dependency of consuming nations on oil, or in some cases natural gas supply, or for access to exploration acreage in a producing country, makes them reluctant to join coalitions the US leads to combat weapons proliferation, terrorism or aggression. The most salient examples are long standing French, Russian and Chinese resistance to sanctions on Iran, or before the war, on Iraq; China's resistance to oil sanctions on Sudan; and of course long standing US tolerance of repression in the Middle East that we would have sanctioned in any non oil producing part of the world.

Second, when exporters have very high revenues, with earnings far in excess of that needed to finance their own budgets, they can act with impunity against their own people and also towards the US and their neighbors. It is costly for President Chavez to build support for his competing economic vision by providing subsidized oil and products to his neighbors or purchasing the bonds that finance their debt. It is a luxury for President Putin to renationalize his energy sector, restrict foreign access to his pipeline system, and see production flatten while demanding open access to Europe. It is costly for Iran to have paid down its international debt and increased its foreign reserves to withstand potential sanctions. None of these governments could finance their internal budgets if oil were $25 per barrel. Even Saudi Arabia's economic reform movement, borne in the days of $10 oil in 1998, evaporated when oil reached $30 per barrel in 2000. Enrichment of our competitors or adversaries harms U.S. security interests in every part of the globe.

A third problem is that the restricted access to new oil exploration acreage impedes the ability for supply to respond to higher prices from increased demand. Most of the world's oil reserves (and nearly all of the low cost easy to access reserves) are controlled by governments, most of whom do not allow the free market access to develop and exploit it. The denial of foreign exploration for oil by Saudi Arabia and Kuwait, as well as new restrictions on access to acreage in Russia, limits the ability of high prices to attract new supply. Moreover, as oil prices rise, many governments that have been open to foreign investment (Russia, Venezuela, Bolivia, Argentina, Ecuador) are now far less receptive to foreign investment, curtailing the ability of supply to respond to market signals and driving prices higher.

A fourth and closely related problem is that this "tight" market is undermining the fluidity and fairness of the market for available oil supplies and exploration acreage. New competitors like China and India, are trying to negotiate long term supply contracts (at market prices) to ensure that they have supplies in the event of a crisis or supply disruption. These countries are not cornering significant amounts of oil at this time, but the trend is counter to the market system that operates so efficiently. In addition competition is also fierce because newly developing non-market economies which must import oil (China and India) are using government subsidies to compete with private companies for access to acreage. From an economic point of view it may not matter if China loans Angola $3 billion at low interest to gain part of an exploration block if the oil is produced. But China gains an enormous geopolitical advantage by this act which neither the U.S. nor international oil companies can compete with. During the past few years, China has demonstrated a willingness to deepen its oil trading relationships with countries whose ties to the United States are strained, such as Iran, Sudan, and previously Libya, taking advantage of U.S. sanctions policy and leading to fears that Beijing will form oil-for-arms, military-client relationships with nations under boycott by the United States. This has put China into a position of geopolitical rivalry with the United States. As Russia decides whether to build a new oil pipeline to China or to a port close to Japan, it influences the foreign policies of both nations in a way the U.S. cannot compete with.

A fifth issue is that oil dependency makes the US economy vulnerable to the price volatility that results from supply and demand shocks. The source of these price shocks in the global oil market is increasingly from internal disruptions: the Venezuelan strike of 2003, shut in production in the Niger Delta today, the Libyan and Iranian revolutions, insecurity and instability in Iraq. The system of collective energy security established through International Energy Agency, including our own Strategic Petroleum Reserve has effectively deterred producers from attempting an oil embargo. But we cannot deter internally generated threats and disruptions, only manage them.

The sources of energy threats vary by region and by country. Latin America and Sub-Saharan Africa represent two different categories of emerging threats. Sub-Saharan Africa represents the threat of supply disruption from internal unrest resulting from poor governance, past corruption, the adventurism that oil wealth attracts, and competition for geopolitical influence from non-market economies. In Latin America the emerging threat is that rising state control will limit the growth of global supplies of oil and gas by undermining the value of existing investments, discouraging future investment or barring foreign investment altogether. The economic consequence of these trends is that the hemisphere will contribute less to the diversification of oil supply, thereby increasing the importance of OPEC supply, and over time undermine economic development in the region. The political consequences of these trends in the short run are the decline of US influence in the region to competing ideologies and the erosion of democratic structures.

I will address the strategic importance of Latin America and Africa to US energy security and then detail the emerging threats in each region and policy responses.

II. The Importance of Latin America and Sub-Saharan Africa to US Energy Security

Latin America and Sub-Saharan Africa are and will remain critical to US energy security. US energy security depends on access to diverse, reliable, abundant and affordable supplies of oil and gas. The oil exporting nations of Latin America and Western and Southern Africa provide 44.6% of US oil imports and 14.4% of global oil production.[1] They hold 14.9 percent of global oil reserves and 7.5 percent of global gas reserves.[2] They are far closer to the US market than the Middle East. Most African oil producers welcome foreign investment. The investment climate in Latin American countries is deteriorating as state control increases, but even in Venezuela access to exploration acreage remains superior to that in the Middle East. Additionally, the non-OPEC producers in these regions exert counter-pressure on OPEC's monopoly power.

Central and South American nations possess approximately 9.76% of the world's proven oil supplies, with 6.5% in Venezuela alone[3]. Mexico holds another 1.2% of proven oil reserves. The region is also a major refining center, with nearly 6.3% of the world's refining capacity. Regional refineries are designed to serve the specialized needs of US markets. The most important exporters, Venezuela and Mexico, consistently rank in the top four sources of US oil supply along with Canada and Saudi Arabia. Venezuela averaged 1.29 million bbl/day in 2005; Mexico averaged 1.59 million bbl/day in that year.

West and Central Africa, including Nigeria, Angola, Chad, Equatorial Guinea, Gabon, Sao Tome and Principe and the Gambia, today supplies 13-14% of US oil imports. According to the National Intelligence Council, this region could supply up to a quarter of our imported oil in the next decade. Sub-Saharan Africa outperforms its reserve base; it holds only 3 percent of the world's oil reserves, and 3 percent of the world's natural gas reserves. Nigeria is the largest oil producer in Africa and the tenth largest producer of crude oil in the world. In 2005, total Nigerian oil production, including lease condensates, natural gas liquids and refinery gain, averaged 2.6 million bbl/d (of which 2.4 million bbl/d was crude oil). With the help of new projects coming online, the Nigerian government hopes to increase oil production to 3 million bb/d in 2006 and 4 million bbl/d by 2010. In 2005, Nigerian petroleum exports to the United States averaged 1.15 million bbl/d, making it our fifth largest supplier.

Crude oil production in Angola has more than quadrupled over the past two decades, with production in 2005 averaging 1.25 million bbl/d. Angolan oil production is predicted to reach two million bbl/d by 2008, when new deep-water production sites are expected to come online. As of January 2006, Angola had 5.4 billion barrels of reserves. It exports 441,000 b/d to the US which

[1] http://tonto.eia.doe.gov/dnav/pet/pet_move_impcus_a2_nus_ep00_im0_mbbl_a.htm
[2] http://www.eia.doe.gov/emeu/international/reserves.html
[3] http://www.eia.doe.gov/emeu/international/reserves.html

makes Angola our ninth largest supplier, and our third largest non-OPEC supplier outside of the Western Hemisphere.

According to Energy Information Administration (EIA) estimates, other West African producers with offshore tracts are expected to increase output by up to 1.1 million barrels per day by 2015. According to CERA, between 2004 and 2010 West and Central Africa will add 2 to 3 million bbl/d to world production, accounting for 20 percent of new production capacity worldwide. This oil is the light, low sulfur product preferred by US refiners. Natural gas reserves, if developed in Nigeria, Angola, and Equatorial Guinea, could increase West Africa's liquefaction capacity from 9 million to 30-40 million tons per annum (world capacity is 115 million tons per annum).

III. Emerging Threats in Latin America

The US faces three primary threats in this region: the economic loss to US companies from revisions to existing contracts, the loss of production growth and diversity of supply from the region if new economic frameworks are unattractive to foreign investors, and most critically the loss of US influence from well financed political competition.

Revision of Fiscal Terms

In Latin America a wave of changes in contractual terms and dramatic changes in tax regimes in Venezuela, Bolivia, Ecuador and in recent years Argentina threatens to slow new investment and eventually deepen instability and poverty in these nations as well as destroying shareholder value for the companies invested there. Success stories like Brazil, Colombia and Peru, which have created independent regulators and obliged their national energy companies to compete with outside companies for exploration rights, provide bright spots in the region. These countries provided flexible and attractive investment terms to combat declining reserves, but are not the dominant economic models. Mexico has been a long time reliable supplier, but its upstream oil sector has long been closed to foreign investment and it is projected to decline unless this policy changes or unless the Mexican government dramatically increases the amount of PEMEX earnings it can keep for capital investment. In 2004 PEMEX paid the government 60% of its revenues. The deterioration in the investment climate for energy in these countries is primarily an economic threat, helping to lock in constrained supply and high prices. China holds less than 10% of upstream assets in the hemisphere, primarily recent acquisitions of Western assets in Ecuador and Peru. China does not, however, enjoy preferential access in Venezuela at this time.

What we are seeing in Latin America is the revision of economic terms at a time when producers and not companies hold more market power. We see Venezuela pass a hydrocarbons law that insists on a 51% share by the national oil company and a higher royalty rate. We see operations, such as those under Operating Service Agreements, which may have stretched the legal interpretation of the law when they were begun, endure strict and adverse legal interpretation when they appear to be poor earners for the government. We see taxes once renounced, like the export tax, revived so that the government can earn, in essence, a fixed 33.33% royalty.

In Bolivia President Evo Morale's May 1st Decree declared that the state would take control of all gas fields. Royalty payments to the Bolivian government at the largest gas fields will now increase from 50% to 82%. All producers are obliged to sell at least 51% of their holdings to the Bolivian government, with the value of that share to be assessed by audit and negotiation. The two largest gas fields - San Alberto and San Antonio - must give 82% of production to the state, up from 50%. The state will take 60% of production from other fields. Bolivia has left itself a open door through which it can compromise or retreat: details of new contracts are to be worked out on a case-by-case basis. But companies were given only six months to renegotiate contracts or be expelled.

In Ecuador President Palacios seeks to increase windfall revenues from 30% to 50% and to renegotiate production sharing contracts, while still embroiled in disputes over company claims for refunds of value added tax payments rebates denied by the government.

The net effect of these developments is that new investment in these countries is virtually frozen at a time when prices should be driving new exploration and production. No new investment has been made under Venezuela's 1998 Hydrocarbons law. New investment is unthinkable in Bolivia until existing companies can determine the extent of their losses. Ecuador's investors are mulling legal action and suspension of existing investments.

The Challenge to US Policy

The second, and most important challenge in the hemisphere, is political. This is primarily a challenge from Venezuela. High oil prices have enabled President Chavez to maintain very high revenues for his government, allowing increased domestic social spending, high levels of foreign assistance, and modest reinvestment by PDVSA to countries in South America and the Caribbean. President Chavez has a competing vision from that of the United States on a broad range of issues. He opposes the US on trade integration, our liberal (versus his Bolivarian) model of democracy, on Iran and Iraq, and seeks to exclude the US from regional economic energy arrangements in South America and the Caribbean. The jury is still out on whether his economic model is viable at $25 oil and whether his neighbors support his vision or are just accepting his assistance. But the political challenge to the US vision for the region is unmistakable.

In summary, the only strategic suppliers to the global oil market in the hemisphere are Venezuela and Mexico. Mexico is a dear and reliable ally. The only significant exporter of gas to the US market is Trinidad and Tobago. Venezuela is a competitor, but is not likely to halt supply to the US as an act of political warfare unless we embargo them first. They have in fact remained reliable suppliers of oil and products, despite the heated rhetoric reported in the media. An act of energy aggression by Venezuela against its neighbors is also unlikely at this time. Any hope Venezuela has for regional leadership would evaporate if they used their oil wealth for act of military aggression against a neighbor. Withdrawing oil supply from the market will harm their new friends and future markets as well as cutting of the government's supply of revenue. The US could, would and should use the Strategic Petroleum Reserve to redress the unlikely event of a production halt by Venezuela, or another (equally unlikely) strike by its workers. For now, the Venezuelan challenge is ideological.

IV. Emerging Threats in Africa

Africa presents different challenges. Africa has been open to foreign investment. We have seen tremendous growth in new supply from Nigeria and Angola, as well as Equatorial Guinea and Chad. Only Nigeria is a member of OPEC and it is pressing for increased quotas to meet its growing investment portfolio. In Africa, the key challenges for the US are disruptions in supply that result from internal unrest, the growing competition for political influence from China and India, and the impact of that competition on regional stability and in the long run on the liquidity of the global oil market.

Internal Unrest

Sub Saharan Africa will provide one in five new barrels of oil that come on the market between now and 2010. One of the greatest sources of oil supply interruption has also come from Africa, due to shut in production in Nigeria. The situation in the Niger Delta is deteriorating. Foreign workers have been killed and kidnapped. A Baker Hughes employee was assassinated last week. Sabotage of oil pipelines has killed hundreds of Nigerians. Recent attacks by new Movement for the Emancipation of the Niger Delta (MEND) knocked 631,000 bbl/d off the market, adding pressure to already high oil prices. MEND threatened this past weekend to bomb the Nigeria LNG plant, which supplies 25% of Atlantic Basin LNG and 10% of global supply. The threat of an oil worker strike may lead to further supply disruptions; in 2003 a similar strike shut in 300,000 barrels per day of oil production. MEND is a serious threat: its weapons, training, and general sophistication pose a formidable challenge to Nigerian security forces in the region. In addition, while estimates vary, at least $1 billion per year in crude oil may be stolen by organized crime syndicates in Nigeria and the proceeds of that theft can impact conflict in neighboring countries, such as the Ivory Coast, or potentially corrupt the democratic process in Nigeria.

The Niger Delta conflict is a complex social, economic, humanitarian and security challenge. The Nigerian government is taking important steps to address the issue. The government recently announced the formation of a Consolidated Council on Social and Economic Development of Coastal States of the Niger Delta, which seeks to create 20,000 jobs for people from the area, largely in the security forces and the national oil board. The government plans to build a $1.8 billion highway through the Delta, as well as make improvements in the education, health, telecommunications, environment, agriculture, power and water sectors. But there is little trust among the parties and progress on security, stability or conflict resolution will not be made without the support and participation of external facilitators, including the United States.

Endemic poverty, weak governance, and the lack of infrastructure make internal unrest a potential threat in Angola, Equatorial Guinea and Chad as well. So far Angola has remained stable, but if progress is not made in poverty alleviation, future attacks on oil facilities cannot be ruled out. Equatorial Guinea has seen at least two reported coup attempts, fomented by external adventurers who may be linked to clan rivals in the country. A coup attempt was recently rebuffed in Chad and the governments own breach of its arrangements with the World Bank on the Chad Cameroon pipeline have aggravated tensions there as well. Unless the root causes of instability are addressed, these disruptions will continue. These disruptions add volatility to oil prices, and can impact global economic growth if they are large and sustained.

Competition for Influence

The greatest political challenge the United States faces is competition for political influence from China and to a lesser extent, India. From an economic point of view, there is nothing wrong with China's acquisition of equity shares in oil producing ventures, or overpayment for exploration acreage, as long as they produce the oil. China's acquisitions in fact are capital transfers to Western companies. China's entry into new markets gives them a stake in the stability of the region. But the geopolitical ramifications of China's energy strategy are, for now, a challenge to US policies in the hemisphere.

China has had a diplomatic presence in Africa for decades, grounded on its campaign to prevail against Taiwan for recognition as the one China. But China's legitimate energy security needs have led it to adopt a strategy that competes directly with US interests. In part this has been opportunistic, by seeking acreage that was denied to US companies because of economic sanctions. China's development of oil production and pipeline and export facilities in Sudan is an example of this strategy, as are its attempts to secure acreage in Iran and pre-war contributions in Iraq. China's energy stakes in Sudan led it to oppose Chapter VII sanctions on Sudan in the United Nations Security Council. China also offers government subsidized loans and or infrastructure projects to countries. In the case of Angola, where China has offered $3 billion in low interest oil backed loans, international financial institution pressure for Angola to increase the transparency of the management of its oil revenues is undermined by obviating the need for Angola to seek assistance from the IMF. Chinese infrastructure to Nigeria in exchange for a right of first refusal for exploration acreage run counter to sustained efforts to promote transparency in the management of Nigeria's oil sector, by reducing the discretionary elements in decisions on acreage allocation.

China's impact on regional stability is mixed. It has become an important contributor to UN peacekeeping operations, with nearly 600 peacekeepers in Liberia in 2005. Its role in Sudan has been negative, limiting the effectiveness of UN Security council action, and contributing to the length of the conflict. To the extent that historical corruption and lack of transparency aggravate conflict in the Niger delta and other states, China's absence from the ranks of countries supporting international financial institution efforts to promote revenue transparency and management are a negative factor so far in regional stability.

China has also attempted to lock up oil supplies in Africa by requiring long term contracts as a condition of its financial support or by taking equity shares in Western operated producing fields. So far the volume of oil obtained by China is not material. But the trend of long term contracts runs counter to the modern liquid global market which operates efficiently in rapidly moving supplies to meet market demand. Over time this liquidity will benefit China as much as any other nation, but China has not yet developed faith in these market mechanisms. This is a trend to watch, but not a current threat.

Overall China is able to package diplomatic, economic, security and commercial incentives for countries that gains them political leverage. Neither the US government, nor private companies are now prepared to compete effectively with this kind of combination of incentives. China's rising influence, combined with a lack of priority on democracy, transparency, environmental protection or conflict prevention directly challenge US policy.

Policy Recommendations

The greatest challenges to U.S. national security from oil dependency come from our loss of influence with European and Asian consumers who should be our natural national security partners, the immunity and impunity of nations like Iran who use oil as a shield, our inability to deter the erosion of democratic institutions in oil powers like Russia and Venezuela, or the promotion of stability and democracy in smaller producing countries. It is these latter two challenges that are most salient in Latin America and Africa.

Latin America

In Latin America we are seeing the rise of state control or forced revision of contracts for two reasons. One is that trade liberalization and increased GDP growth have not led to poverty alleviation or inclusion of excluded minorities in countries like Venezuela, Bolivia, Ecuador and Peru, leading to a rejection of liberalized markets and the Washington consensus in many countries. Another is that growing populations have increased the pressure for governments to raise revenues in economies that are still resource dependent, so governments are appropriating the best available source of cash, regardless of the long term consequences.

The US should protest violations of contracts or expropriations where these takes place and deny benefits such as bilateral trade agreements to countries that do not respect the agreements they have signed. The US suspension of free trade agreement talks with Ecuador is a good example of this. But the market will either tolerate or punish the economic actions of governments that raise tax and royalty rates or other fiscal terms adversely. If companies can make money under the new terms offered by Venezuela or Bolivia, they will pursue these opportunities. If not, and if countries do not spend their own capital to develop their resources, then production will fall, their revenues will shrink, and the popularity of their programs will shrink with them. This may lead to higher energy prices, but foolish economic policy is not a basis for US government intervention.

What we should have is a positive agenda in the hemisphere, one that recognizes the need to improve education and infrastructure, addresses the negative social impacts of trade liberalization, and offers the respect and cooperation of the US to those countries that work with us. In countries where we face ideological competition, like Venezuela and Bolivia, it is crucial that we do not abandon the field. We need to increase our diplomatic engagement. We need to address legitimate issues like poverty and advocate how our model can address them. Examples of this are addressing trade barriers to agricultural imports, expanding educational opportunities in the U.S. for future leaders and improving the visa applicant process, expanding military to military contacts, especially exchanges under the International Military Education and Training Program, dealing with migration issues with Mexico in a spirit of respect and fairness, supporting World Bank and Inter American Development Bank infrastructure programs in the hemisphere, supporting the development of civil society and the capacity of democratic institutions and treating our relations with our hemispheric neighbors as intrinsically important, not as litmus tests of loyalty to the US on Iraq or other issues external to the region itself.

I believe that Bolivia's recent actions will mark the nadir of the turn toward repudiation of contracts. Countries like Bolivia and Ecuador are too poor and frankly too insignificant to global energy markets to sustain the kind of behavior they are engaging in. Powers like Brazil and Argentina can communicate this to Bolivia better than the U.S. can. The US should maintain dialogue with Bolivia and give it our best, even if unwelcome, advice and cooperate where we can.

Venezuela is a more complicated case. Venezuelan governments prior to the Chavez government governed poorly, practiced corruption, ignored poverty and excluded minority sectors of its society. The Chavez government came to power determined to return control of energy policy from the national oil company to the government ministry, to reclaim some of the oil rents held by the national oil company for the government's own account, and to change the economic terms of its acreage allocation from those set when oil was $10. This is a policy the US would support in any other country. The government has spent lavishly and allegedly unwisely, on social programs, but this is what we pray most African government would do with their own oil wealth. The famous strike of 2002-2003 was a battle between the national oil company and the government and the government won. I cannot imagine the US supporting the PEMEX in a battle against the Mexican Government for control of the PEMEX Board of Directors. The US rhetorical support for the coup that displaced the President for a day was foolish, destructive and devastating to our bilateral relations.

Where Venezuela has gone wrong economically is by changing contract terms with impunity and hostility rather than by negotiation with companies who have been its partners for decades, invested billions in its energy sector, and created the production that now enriches the nation. The manner in which the recent changes have taken place has been short sighted, destructive and unnecessary. Venezuela has changed its interpretation of its own tax laws, but it is provocative and disingenuous to accuse companies of being tax cheats as a consequence. Time will tell whether the attractiveness of Venezuela's tremendous oil and gas reserves overcomes the pain inflicted by the way these changes have been made. Oil companies tend not to be emotional about these issues.

Where Venezuela has gone wrong politically is by using legal methods to restrict freedom of the press, prosecution to intimidate political opposition, and constitutional assemblies to unbalance formerly balanced institutions like the Supreme Court and national election commission. The regime itself, helped by the failure of a political opposition to mount a campaign describing what it was for, and high oil prices sufficient to fund the government and external programs at the same time, does not appear to need to use either tactic to win large majorities. These internal governance issues should be the focus of a regional policy, which includes, but is not led by the United States. We should have objective assessments as to whether Venezuela's actions are undermining any other important US security interests. Venezuela has positioned itself as an ideological competitor to the United States in the hemisphere. We need not and should not treat Venezuela as an enemy; we should however, try to compete. We should also end our dialogue via the media and resume the dialogue between our senior foreign affairs, commerce, energy and cultural officials. We should work with Europe and with hemispheric partners to reinforce a message of respect for democratic institutions.

Africa

The US can do a great deal to advance security, stability and energy development in Africa if we pay attention to the region and focus on internal issues. Two detailed sets of recommendation are contained in two task force reports I had the privilege of co-chairing with Stephen Morrison at the Center for Strategic and International Studies (CSIS). The reports are titled "Promoting Transparency in the African Oil Sector: A Report of the CSIS Task Force on Rising US Energy Stakes in Africa" (CSIS: March 2004) and "A Strategic Approach to Governance and Security in the Gulf of Guinea: A Report of the CSIS Task Force on Gulf of Guinea Security" (CSIS: July 2005).

In briefest summary we recommend that the US take a strategic approach to the region, seeking to improve both the governance of the countries and their security. We should improve our diplomatic capacity in the field and coordinated policy here in Washington. We lack solid intelligence or even a presence in the Delta or the North. We should have a robust regional stabilization and governance account, of approximately $50 million per year, to resource democracy promotion, transparency, anti-corruption programs, and enhanced security. The US is not a significant player or policymaker in these international efforts now under way. Our program support should go not just to government but directly to civil society groups, to enhance their ability to participate in democratic institutions and to demand accountability from their governments. The US should prioritize crime prevention, and create a regional capacity to detect and interdict oil smuggling. While the focus of these efforts is again in Nigeria, the US should work with Angola and Equatorial Guinea to improve their rudimentary customs and coast guard capabilities.

The US needs to dramatically enhance its bilateral engagement with Nigeria. Nigeria is a key emerging economy, the most populous nation in Africa and the key to West African regional and economic prosperity. For too long US policy has been focused on Nigeria's external policies –its support for peacekeeping, its custody of Charles Taylor or its role in the African Union. We need a focus on conflict resolution in the Niger Delta, on support for Nigeria's landmark anticorruption and transparency efforts and its attempt to improve government capacity. Specifically we should: 1) facilitate a security response in the Delta, 2) address the crude theft problem by support the modernization of oil measuring systems and a smuggling interdiction program, and 3) actively engage in dialogue on conflict resolution and infrastructure development in the Niger Delta.

The threat that MEND poses requires a serious but not heavy handed security response combined with an intensive conflict resolution effort. The United States, perhaps in tandem with other countries acceptable to Nigeria, should help to establish and train a Nigerian force to protect offshore and onshore oil rigs, contingent on mandatory human rights training. This force would protect energy infrastructure from piracy or attack. The increased lethality associated with MEND's sophisticated tactics calls for technical and training expertise for Nigerian security forces. Security arrangements are currently inadequate, characterized by the use of non-professional personnel, poor logistical support and insufficient number of appropriate platforms. The situation is further compounded by poor communications network among the various security agencies and stakeholders in the oil and gas industry.

Second, to deal with the theft or "bunkering" of oil from Nigeria's pipeline system, the US should engage with Nigeria on the design of the modernization of its metering systems. Pipeline infrastructure is dated in most parts of Nigeria and lacks regular metering points to measure the flow of oil at frequent intervals. This matters because the Nigerian government and oil and gas companies are unable to measure exactly how much oil is stolen between the point of extraction and Nigerian ports. A modernized measuring system also allows the government to set a standard point along the supply chain where royalties and taxes can be calculated. Without modernization, the discrepancies along the supply chain will continue to thwart transparency efforts. The US should offer Nigeria a pilot interdiction program, alone or through NATO, to attempt to interdict crude smugglers and model the kind of doctrine and equipment Nigeria can acquire on its own in the future.

Third, the US should support Nigeria's efforts to peacefully resolve the conflict in the delta. The US should work with Nigeria to form a contact group of trusted nations to assist in an intensive conflict resolution and reconciliation program. The US, the World Bank, and the European governments should also work with the Consolidated Council on Social and Economic Development to develop a credible plan for infrastructure development in the Delta region. Violence in the region is largely due to the failure of natural resource revenues to reach the people in the form of social and economic development. Building roads for the transport of goods and services encourages economic growth by providing access to new markets. External guarantors will help gain the confidence of legitimate local groups and marginalize illegitimate criminal syndicates.

External Policies

In addressing challenges in Latin America and Africa, they US cannot go it alone. Europe has greater investment in Africa's oil sector than the US. The US European Dialogue should focus on democracy promotion and conflict resolution in both areas. We must also begin a dialogue with China and India. Both are great powers and we share an interest in stable energy supply and conflict resolution. As these powers grow on the international stage we need to talk to them about their policies and how they interact with the IMF, World Bank and international multi-stakeholder efforts like the Extractive Industries Transparency Initiative.

While it is a topic for another hearing, it must be said that regional approaches to combat the use of oil as a tool of foreign policy are tactical measures to manage the near term consequences of the impact of oil wealth on many oil producing nations. A strategic approach to this program must focus on reducing the importance of oil as a global commodity. While this is a twenty or thirty year effort, a strategic energy policy that invests in new technology, uses tax and regulatory policy to accelerate the deployment of alternative fuels and vehicles and drastically increase fuel efficiency, and expands the system of collective energy security to include China and India is the only way to protect American power and influence for the long term.